DECISION MEMORANDUM

TO: **COMMISSIONER KEMPTON**
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: **WELDON STUTZMAN**
DEPUTY ATTORNEY GENERAL

DATE: **SEPTEMBER 16, 2010**

SUBJECT: **IN THE MATTER OF INTERMOUNTAIN GAS COMPANY'S 2011-2015 INTEGRATED RESOURCE PLAN, CASE NO. INT-G-10-04**

On August 31, 2010, Intermountain Gas Company (Intermountain or Company) filed its Integrated Resource Plan (IRP) for the years 2011-2015. The Company filed its IRP pursuant to the requirements of Commission Order No. 25342 and Section 303(b)(3) of the Public Utility Regulatory Policies Act (PURPA). Intermountain is the sole distributor of natural gas in southern Idaho and its service area covers approximately 50,000 square miles containing a population of approximately 1 million people. During the first half of 2009, the Company served approximately 305,000 customers in 74 communities through a system of over 10,000 miles of transmission, distribution and service lines. The Company added 120 miles of distribution and 2,883 service lines to accommodate new customers and maintain service for the Company's growing customer base. The IRP is a planning document for the Company that analyzes numerous factors and variables that affect the supply and demand for natural gas in the next few years.

THE INTEGRATED RESOURCE PLAN

The Executive Summary of the IRP identifies the purpose of the plan as "to describe the currently anticipated conditions over the five year planning horizon, the anticipated resource selections and the process for making resource decisions." IRP, p. 5. Intermountain provides natural gas sales to two major markets: the residential and commercial market and the industrial market. During 2009, the Company served an average of 275,522 residential and 29,673

commercial customers, which equates to an increase in average residential and commercial customers of 1.1% from 2008. Residential and commercial customers use natural gas primarily for space and water heating.

Intermountain's industrial customers use natural gas supplied by the company for boiler and manufacturing applications. The IRP states that industrial demand for natural gas is strongly influenced by the agricultural economy and the price of alternative fuels. During 2009, 41.2% of the throughput on Intermountain's system was attributable to industrial sales and transportation.

The IRP states that the Company's peak day loads (throughput during the projected coldest winter day) are growing at a manageable rate. The growth in the Company's projected peak day load is attributable to (1) growth in Intermountain's customer base, primarily residential and commercial, and (2) production related growth occurring in the Company's industrial firm transportation market.

Forecast Peak Day Send-Out

The Company analyzed several peak day send-out (delivery) studies to determine the magnitude and timing of future deficiencies in firm peak day delivery capabilities, looking at both a total interstate mainline perspective as well as geographic region specific perspectives. Residential, commercial, and industrial customer peak day load send-out was matched against available resources to determine which combination of new resources would be needed to meet the Company's future peak day delivery requirements in the most cost-effective manner. IRP, p. 6. The Company estimates that residential, commercial, and industrial peak day load growth over the five-year period will increase at an average annual rate of 1.75% under a base case scenario. The IRP indicates that there are no peak day delivery deficits when forecasted peak day send-out is matched against existing resources. IRP, p. 7.

Regional Studies

The IRP analyzes certain geographic regions within Intermountain's service territory based upon the anticipated or known need for distribution system upgrades within each specific region. The geographic regions are identified as the Idaho Falls Lateral Region, the Sun Valley Lateral Region, the Canyon County Region, the State Street Lateral Region and an All Other Region. The Idaho Falls Lateral is 104 miles in length and serves a number of cities between Pocatello and St. Anthony in eastern Idaho. The residential, commercial, and industrial load

served off the Idaho Falls Lateral represents approximately 15% of the total Company customers and 19% of the Company's total winter send-out during December 2009. IRP, p. 7. The IRP identified a peak day delivery deficit for the Idaho Falls Lateral that occurs during 2011 and increases in each of the next four years. Some of the industrial customers in the Idaho Falls Lateral have the ability to mitigate peak day consumption by switching to fuel oil during extreme cold temperatures. Intermountain believes that small, short-duration peak day distribution delivery deficits in the future can be mitigated by working with these customers to facilitate the use of fuel oil at the customers' facilities. In addition, the peak day delivery deficits can be managed by bringing on gas from the new Rexburg LNG facility.

The residential, commercial, and industrial customers served off the Sun Valley Lateral represent approximately 4% of the total customers and 4% of the Company's total winter send-out during December 2009. When forecasted peak day send-out on the Sun Valley Lateral is matched against existing capacity, a peak day delivery deficit occurs during 2011 and slightly increases during each of next four years. The IRP states that the growth along the Sun Valley Lateral will warrant a future upgrade to the existing pipeline system. The IRP states that the Company plans to increase the delivery capability on the Sun Valley Lateral using a series of cost-effective system upgrades beginning in 2011.

The Canyon County Lateral represents approximately 14% of the total Company customers and 13% of the Company's total winter send-out during December 2009. The IRP states that a matching of the existing peak day distribution with anticipated demand shows that there are no peak day delivery deficits during 2011-2015.

The State Street Lateral is identified for the first time in the 2010 IRP. The IRP states that there is currently no threat of capacity constraint in the State Street Lateral, but that the Company is monitoring it as demand is beginning to approach design capacity. During the 2011-2015 timeframe, there are no capacity constraints for the State Street Lateral.

Assessment of Potential DSM Programs

The IRP states that, in addition to reviewing traditional and non-traditional resource alternatives, Intermountain also analyzed potential demand-side management (DSM) measures to mitigate potential constraint areas. Specifically, the Company evaluated two different programs: the continuation of its $200 rebate to customers that install a 90% or greater efficiency natural

gas furnace when converting to natural gas, and (2) a $30 rebate when a customer installs a .64 or greater energy factor gas water heater at the time of conversion.

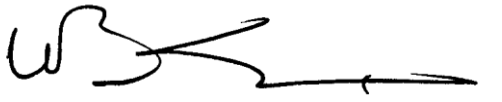
The IRP analyzed residential, commercial and industrial customer growth and its impact on Intermountain's distribution system using design weather conditions under various scenarios for Idaho's economy. Peak day send-out under each of these customer growth scenarios was measured against the available natural gas delivery systems to project the magnitude and timing of delivery deficits, both from a total Company perspective as well as a regional perspective. The resources needed to meet the projected deficits were analyzed within a framework of options, including DSM measures, to help determine the most cost-effective means to manage the potential deficits.

STAFF RECOMMENDATION

Staff recommends that the Company's IRP filing be processed by Modified Procedure with a 60-day comment period.

COMMISSION DECISION

Should the Commission issue a Notice of Filing and Notice of Modified Procedure establishing a 60-day comment period to process Intermountain Gas Company's 2011-2015 Integrated Resource Plan?



Weldon B. Stutzman
Deputy Attorney General

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